The Fiscal Monitor

A Publication of the Department of Finance

April and May 2008 Financial Results: Highlights

For the first two months of the 2008–09 fiscal year (April and May), there was a budgetary deficit of $0.5 billion, compared to a $2.8-billion surplus reported in the same period last year. By month, there was a deficit of $0.9 billion in April and a surplus of $0.3 billion in May. For the two months together, revenues declined by $1.6 billion, or 4.1 per cent, largely reflecting lower corporate income tax and goods and services tax (GST) revenues. The revenue estimates for the first two months of the year include the impact of tax reduction measures for persons, businesses and the GST.

Program expenses were up $2.1 billion, or 7.0 per cent, reflecting higher transfers and other program expenses. The monthly profile of growth in spending will initially be quite high but by mid-year will moderate considerably, consistent with the 3.4 per cent annual growth projected in Budget 2008. This monthly profile is due to the pattern of spending in 2007–08, which was low in early months but rose in the second half of the year once Budget 2007 fiscal balance and spending measures came into effect. Public debt charges declined by $0.4 billion.

The results for the first two months of the fiscal year are not indicative of the outcome for the year as a whole. Financial results can be volatile on a monthly basis due to variations in the timing of significant payments or receipts. A quarterly update of the 2008–09 budgetary surplus projection will be provided in the June *Fiscal Monitor*, which will be published in late August.

April and May 2008 budgetary results

Through the first two months of the 2008–09 fiscal year, there was a budgetary deficit of $0.5 billion, compared to a $2.8-billion surplus reported during the same period of 2007–08.

Budgetary revenues declined by $1.6 billion, or 4.1 per cent, to $37.3 billion.

- Personal income tax receipts rose $0.1 billion, or 0.6 per cent, through April and May, made up of a decline of 3.0 per cent in April, largely reflecting timing factors, and an increase of 4.9 per cent in May, in line with growth in employment. Starting with this *Fiscal Monitor*, monthly personal income tax revenues for both 2007–08 and 2008–09 will be adjusted to reduce volatility caused by the timing of large processing days.
- Corporate income tax revenues declined by $1.1 billion, or 16.6 per cent. Corporate income tax revenues can be volatile on a month-to-month basis, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.
- Other income tax receipts—withholdings from non-residents—rose $47 million, or 5.9 per cent.

Note: Unless otherwise noted, changes in financial results are presented on a year-over-year basis.

- Excise taxes and duties were down $1.0 billion, or 14.0 per cent, caused by a $1.0-billion, or 20.9-per-cent, decline in GST revenues partly as a result of the 1-percentage-point reduction in the GST rate effective January 1, 2008. Customs import duties were down $14 million, sales and excise taxes increased by $36 million, and revenues from the Air Travellers Security Charge were $7 million lower.
- Employment Insurance (EI) premium revenues were down $20 million, or 0.6 per cent, reflecting the decline in the premium rate from $1.80 to $1.73 per $100 of insurable earnings, effective January 1, 2008.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, return on investments, and foreign exchange revenues, increased by $0.4 billion, or 11.7 per cent.

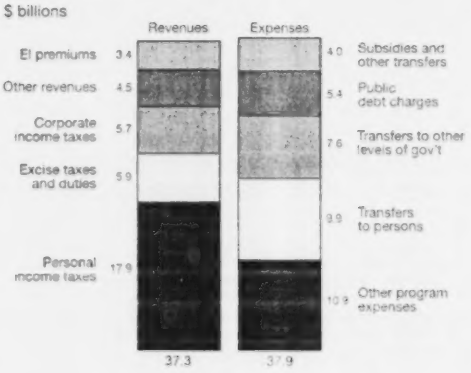
Program expenses in the April to May 2008 period were $32.4 billion, up $2.1 billion, or 7.0 per cent, from the prior year, reflecting an increase in transfer payments and operating expenses of departments and agencies. The monthly profile of growth in spending will initially be quite high but by mid-year will moderate considerably, consistent with the 3.4 per cent annual growth projected in Budget 2008. This monthly profile is due to the pattern of spending in 2007–08, which was low in early months but rose in the second half of the year once Budget 2007 fiscal balance and spending measures came into effect.

Transfer payments increased $1.5 billion, or 7.5 per cent.

- Major transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose $0.2 billion, or 2.2 per cent, on a year-over-year basis. Elderly benefits increased 3.4 per cent and EI benefit payments increased 1.2 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit, remained stable compared to the prior year.
- Major transfers to other levels of government were up $0.8 billion, or 12.0 per cent, reflecting legislated growth in the Canada Health Transfer, as well as increases to the Canada Social Transfer and Equalization introduced in Budget 2007 as part of the Government's package to restore fiscal balance. The increase in these transfers announced in Budget 2007 came into effect later in 2007, which explains their rate of growth on a year-over-year basis.
- Subsidies and other transfers were up $0.5 billion, or 13.2 per cent, mainly reflecting increases in payments related to the investments in infrastructure announced in Budget 2007, which came into effect later in 2007, and higher transfers to Newfoundland and Labrador and Nova Scotia under the Offshore Accords.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and

Revenues and expenses
(April to May 2008)



also reflect the ongoing assessment of the Government's liabilities. On a year-over-year basis, these expenses increased $0.6 billion, or 6.2 per cent.

Public debt charges decreased $0.4 billion, or 7.1 per cent, largely reflecting lower unmatured debt levels.

Financial requirement of $12.7 billion for April to May 2008

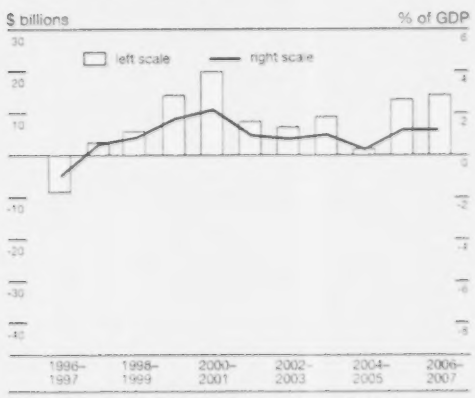
The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary deficit of $0.5 billion and a requirement of $12.2 billion from non-budgetary transactions, there was a financial requirement of $12.7 billion in the April to May period of 2008–09 compared to a financial source of $8.5 billion in the same period the previous year. This year-over-year difference is largely due to tax refunds related to the tax cuts announced in the October 30, 2007 Economic Statement and to the financial requirement associated with loans to major Crown corporations which were announced in Budget 2007.

Net financing activities up $14.9 billion

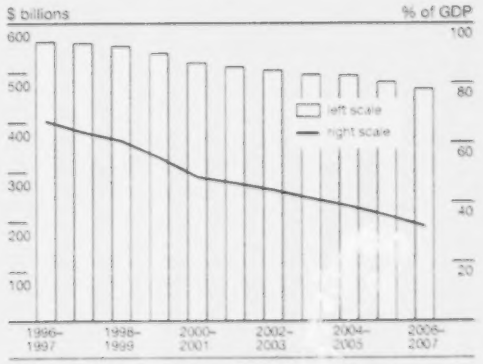
The Government financed this financial requirement of $12.7 billion by increasing market debt by $14.9 billion. The increase in market debt was achieved largely through an increase in treasury bills. Cash balances were also increased by $2.2 billion by the end of May 2008. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of May 2008 stood at $13.4 billion, $2.8 billion above their level at the end of May 2007.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Table 1

Summary statement of transactions

	April		May		April to May	
	2007	2008	2007	2008	2007–08	2008–09
			($ millions)			
Budgetary transactions						
Revenues	20,273	18,431	18,654	18,918	38,927	37,349
Expenses						
Program expenses	-15,278	-16,482	-15,035	-15,966	-30,313	-32,448
Public debt charges	-2,976	-2,813	-2,855	-2,605	-5,831	-5,418
Budgetary balance (deficit/surplus)	2,019	-864	764	347	2,783	-517
Non-budgetary transactions	735	-9,629	4,992	-2,539	5,727	-12,168
Financial source/requirement	2,754	-10,493	5,756	-2,192	8,510	-12,685
Net change in financing activities	-17,161	6,173	-1,944	8,690	-19,105	14,863
Net change in cash balances	-14,407	-4,320	3,812	6,498	-10,595	2,178
Cash balance at end of period					10,609	13,422

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	April		May		April to May		
	2007	2008	2007	2008	2007–08	2008–09	Change
			($ millions)				(%)
Tax revenues							
Income taxes							
Personal income tax	9,581	9,297	8,155	8,553	17,736	17,850	0.6
Corporate income tax	3,389	2,875	3,452	2,827	6,841	5,702	-16.6
Other income tax	426	424	368	417	794	841	5.9
Total income tax	13,396	12,596	11,975	11,797	25,371	24,393	-3.9
Excise taxes and duties							
Goods and services tax	2,566	1,555	2,095	2,130	4,661	3,685	-20.9
Customs import duties	305	315	318	294	623	609	-2.2
Sales and excise taxes	754	740	759	809	1,513	1,549	2.4
Air Travellers Security Charge	37	38	32	24	69	62	-10.1
Total excise taxes and duties	3,662	2,648	3,204	3,257	6,866	5,905	-14.0
Total tax revenues	17,058	15,244	15,179	15,054	32,237	30,298	-6.0
Employment Insurance premiums	1,766	1,757	1,666	1,655	3,432	3,412	-0.6
Other revenues	1,449	1,430	1,809	2,209	3,258	3,639	11.7
Total budgetary revenues	20,273	18,431	18,654	18,918	38,927	37,349	-4.1

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	April		May		April to May		
	2007	2008	2007	2008	2007–08	2008–09	Change
			($ millions)				(%)
Transfer payments							
Transfers to persons							
Elderly benefits	2,607	2,700	2,622	2,705	5,229	5,405	3.4
Employment Insurance benefits	1,378	1,456	1,075	1,026	2,453	2,482	1.2
Children's benefits	1,011	1,017	1,019	1,025	2,030	2,042	0.6
Total	4,996	5,173	4,716	4,756	9,712	9,929	2.2
Transfers to other levels of government							
Support for health and other social programs							
Canada Health Transfer	1,779	1,886	1,779	1,886	3,558	3,772	6.0
Canada Social Transfer	733	880	734	880	1,467	1,760	20.0
Total	2,512	2,766	2,513	2,766	5,025	5,532	10.1
Fiscal transfers	970	1,273	1,316	1,272	2,286	2,545	11.3
Canada's cities and communities	0	0	2	0	2	0	n/a
Alternative Payments for Standing Programs	-245	-219	-246	-220	-491	-439	-10.6
Total	3,237	3,820	3,585	3,818	6,822	7,638	12.0
Subsidies and other transfers							
Agriculture and Agri-Food	76	94	18	50	94	144	53.2
Foreign Affairs and International Trade	242	197	222	285	464	482	3.9
Health	129	157	252	223	381	380	-0.3
Human Resources and Social Development	91	122	249	103	340	225	-33.8
Indian Affairs and Northern Development	668	659	295	377	963	1,036	7.6
Industry	136	136	76	95	212	231	9.0
Other	641	834	396	620	1,037	1,454	40.2
Total	1,983	2,199	1,508	1,753	3,491	3,952	13.2
Total transfer payments	10,216	11,192	9,809	10,327	20,025	21,519	7.5
Other program expenses							
Crown corporation expenses							
Canadian Broadcasting Corporation	276	93	64	93	340	186	-45.3
Canada Mortgage and Housing Corporation	130	133	157	301	287	434	51.2
Other	404	543	283	320	687	863	25.6
Total	810	769	504	714	1,314	1,483	12.9
Defence	1,150	1,261	1,138	1,341	2,288	2,602	13.7
All other departments and agencies	3,102	3,260	3,584	3,584	6,686	6,844	2.4
Total other program expenses	5,062	5,290	5,226	5,639	10,288	10,929	6.2
Total program expenses	15,278	16,482	15,035	15,966	30,313	32,448	7.0
Public debt charges	2,976	2,813	2,855	2,605	5,831	5,418	-7.1
Total budgetary expenses	18,254	19,295	17,890	18,571	36,144	37,866	4.8

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	April		May		April to May	
	2007	2008	2007	2008	2007–08	2008–09
	($ millions)					
Budgetary balance (deficit/surplus)	2,019	-864	764	347	2,783	-517
Non-budgetary transactions						
Capital investing activities	-39	-104	35	33	-4	-71
Other investing activities	612	-2,773	-102	-4,737	510	-7,510
Pension and other accounts	357	361	424	468	781	829
Other activities						
Accounts payable, receivables, accruals and allowances	-1,179	-7,280	3,186	1,188	2,007	-6,092
Foreign exchange activities	703	-129	1,176	232	1,879	103
Amortization of tangible capital assets	281	296	273	277	554	573
Total other activities	-195	-7,113	4,635	1,697	4,440	-5,416
Total non-budgetary transactions	735	-9,629	4,992	-2,539	5,727	-12,168
Net financial source/requirement	2,754	-10,493	5,756	-2,192	8,510	-12,685

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	April		May		April to May	
	2007	2008	2007	2008	2007–08	2008–09
	($ millions)					
Net financial source/requirement	2,754	-10,493	5,756	-2,192	8,510	-12,685
Net increase (+)/decrease (-) in financing activities						
Unmatured debt transactions						
Canadian currency borrowings						
Marketable bonds	1,546	622	3,270	4,805	4,816	5,427
Treasury bills	-17,100	6,000	-3,500	5,300	-20,600	11,300
Canada Savings Bonds	-98	-2	-55	-19	-153	-21
Other	-137	-2	-3	-143	-140	-145
Total	-15,789	6,618	-288	9,943	-16,077	16,561
Foreign currency borrowings	-525	170	-264	-623	-789	-453
Total	-16,314	6,788	-552	9,320	-16,866	16,108
Cross-currency swap revaluation	-975	-781	-1,365	-511	-2,340	-1,292
Unamortized discounts on debt issues	132	175	-30	-87	102	88
Obligations related to capital leases	-4	-9	3	-32	-1	-41
Net change in financing activities	-17,161	6,173	-1,944	8,690	-19,105	14,863
Change in cash balance	-14,407	-4,320	3,812	6,498	-10,595	2,178

Note: Totals may not add due to rounding.

For inquiries about this publication, contact Chris Forbes at 613-995-6391.
Ce document est également offert en français.
July 2008